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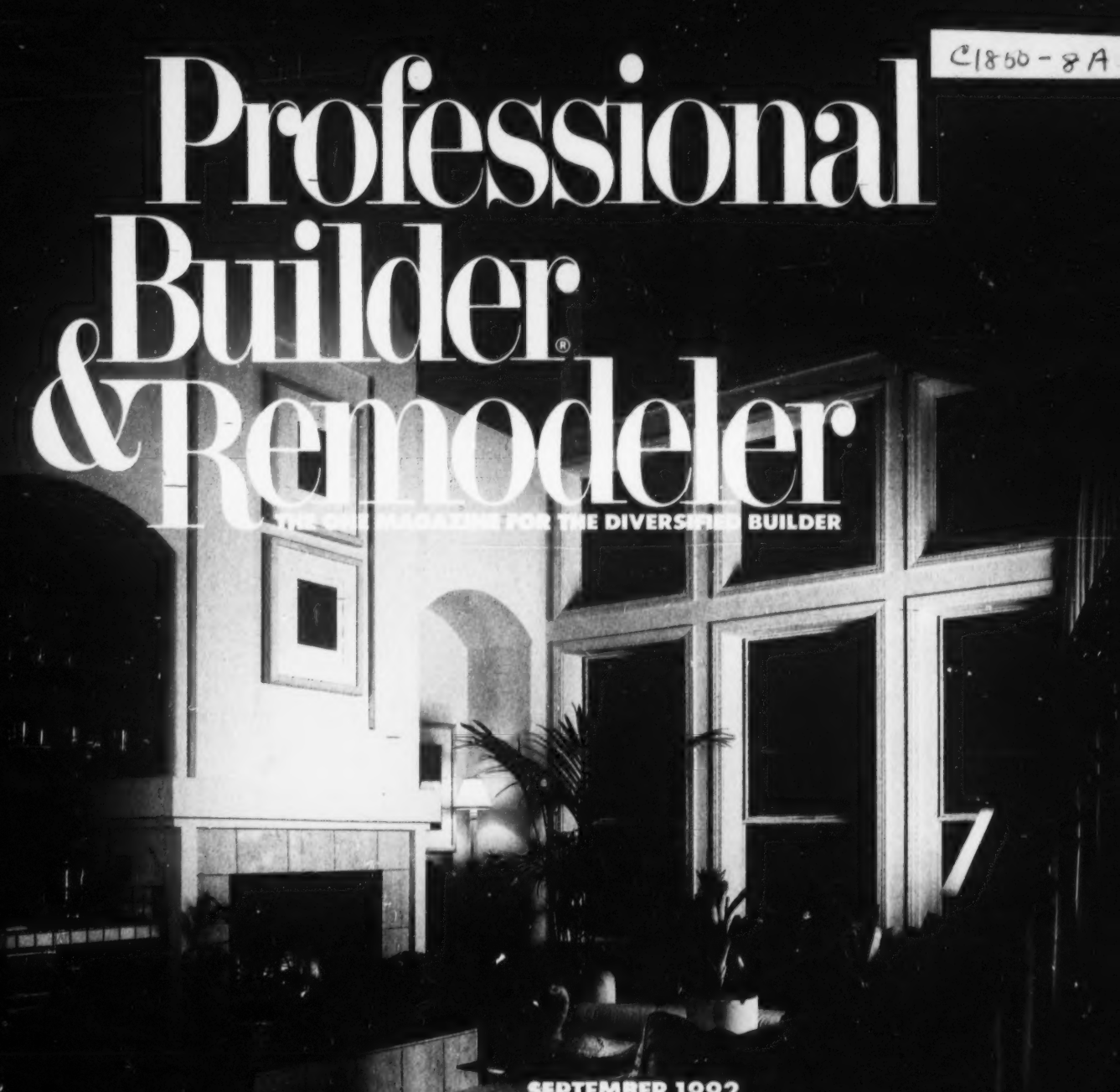
Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER



SEPTEMBER 1992

LUXURY PRODUCTION HOUSING

Regional Traditions Drive Market... 90

Additions That Move Buyers Up, Not Out... 110

Testing Home Automation's Market Appeal... 104

Partnerships & Equity Sharing... 14

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Professional Builder & Remodeler

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On The Cover

■ Laguna Pointe in Redwood Shores, Redwood, Calif., opened to rave reviews and great sales for builder W.W. Dean & Associates. Dahlin Group Architects designed the house, with interior merchandising by Yeiser-Garland. Story begins on page 90. Photography by David Garland.

Luxury production housing: p. 90.

New ideas for doors: p. 136.

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Summit On The Ohio 84

Twenty-five of the industry's top leaders recently sat down with PB&R to analyze what the future has in stock for buyers, builders and houses.

Luxury Production Housing 90

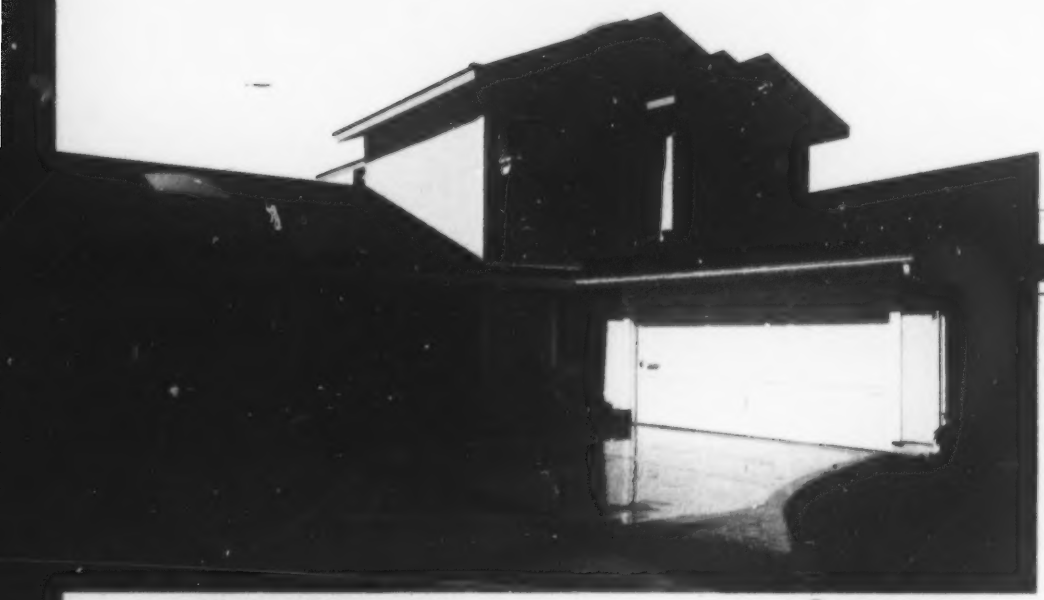
Successful high-end production builders have rediscovered tradition, both regional and historic, as a selling tool.

Home Automation Rollout 104

More automated model homes are opening across the country than ever before, giving consumers a first-hand look at this exciting new technology.

Second-Story Additions 110

When it comes to room additions, moving up, not out, has become increasingly popular in neighborhoods where density or zoning restricts expansion.



SEPTEMBER 1992

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■ To meet conventional lenders' more restrictive equity requirements, many builders are bringing in unconventional financial partners: *p. 14.* Working with non-profit firms can help entrepreneurial firms find new market niches: *p. 20.*

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■ Old world architecture gives apartments an air of sophistication: *p. 27.* How builders are shaping practical rooms out of vacant space: *p. 28.* A ramp incorporated into a design helps meet non-res accessibility requirements: *p. 36.*

Management

■ A shortage of land in the development pipeline is beginning to worry many builders: *p. 47.* The "total quality management" concept is changing the way builders deal with their subcontractors: *p. 56.*

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■ New Jersey's restrictions on "design/build" remodeling activity could be causing trouble in the Garden State: *p. 65.*

Technology

■ A new manufactured model home showcases the latest methods and materials: *p. 129.*

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■ ACCOUNTING

Rolling Option Agreements Benefit Builders And Developers

By Kenneth Leventhal,
Senior Partner,
Kenneth Leventhal & Co.

Many builders cannot obtain financing to buy finished lots from developers, and they are unwilling or unable to acquire lots with their own capital. As an alternative, some builders are entering into rolling option agreements with developers (or other sellers).

Specific terms vary, but these agreements commonly require that a builder make a low downpayment or deposit. The following is a simple example:

The seller gives the home builder an option to purchase 40 lots in a subdivision for $25,000 a lot.

The builder agrees to purchase or "take down" a minimum of two lots per month and makes a $75,000 deposit applied toward the purchase of the final three lots.

The rolling option enables a builder to control large numbers of lots for a relatively small investment.

The builder finances acquisition of these lots with draws on its construction loan—lots are released individually as the seller receives payments.

The rolling option enables a builder to control large numbers of lots (usually it has the right of first refusal to acquire them) for a relatively small investment. In markets where land prices are rising, this option can protect the builder from having to pay higher prices (assuming the builder and seller agree on a fixed price for the lots).

Sellers who offer rolling options usually attract builders who otherwise would not acquire lots. Sellers therefore have greater opportunities to dispose of their land. And they may benefit from a higher rate of housing starts and home sales that pushes up land values.

Sellers and builders who are thinking of entering into rolling option agreements usually must consider variations in the terms. These include:

Deposits—A deposit may cover all of the optioned lots or be applied only after a specified number of lots have been purchased.

Purchase price—Some agreements require little or no deposit, but an accelerated release price for the initial lots (e.g., 110% for the first 10 lots, 105% for the next 10).

Takedown schedules—When the master developer (or other seller) wants to control the order in which lots are taken down for construction, it may require the builder to agree to a takedown schedule. In a three-phase project, for example, the seller may require the builder to buy 90% of the lots in phase one before entering into phase two. Alternatively, in return for paying a premium to the seller, the builder may acquire lots out of sequence, e.g., lots in phase three before those in phase two.

Kathryn Ferron, senior manager Phoenix, Keneth Leventhal & Co., contributed to this article.

'Retained Value' Key To New Remodeling Study

A remodeling payback study found that garages add the highest return on investment for homeowners. Conducted by Marshall & Swift, a Bridgewater, N.J., provider of construction cost data, the survey used the *retained* value of nine popular remodeling jobs to determine the value of remodeling to a sold home.

The survey found the home improvements that retained the most value were: a garage (retained 78% after three years), a fireplace (68%), and a wooden deck (66%).

The worst? A pool retained only 42% of its original cost after three years. For example: Three years after installing a $20,000 pool, a homeowner could expect to get back $8400. A $5000 garage would add $3900 to a home's selling price during the same time, results show. "The findings are of particular interest to homeowners who plan on selling in a few years," says Robert Crine Jr., Marshall & Swift's vice president. □

Remodeling Cost Payback Over Time

	1 Yr.	3 Yrs.	5 Yrs.
Kitchen remodel	77%	62%	47%
Bath remodel	77%	62%	44%
Roof replaced	69%	52%	39%
Fireplace addition	78%	68%	61%
Swimming pool	53%	42%	31%
1-car garage	84%	78%	71%
Wood deck	79%	66%	55%
Solar room	72%	61%	53%
Family room	79%	56%	37%

Source: Marshall & Swift.

INDICATORS

New Home Sales Bounce Back—A Sign Of Better Times?

Lower interest rates and a solidified first-time buyer credit will boost demand.

New single-family homes sold at a seasonally adjusted annualized rate of 572,000 units during June, a sharp 7.2% gain from the May level and up 11.5% from the June 1991 rate. The May-June increase followed four consecutive months of declining sales, and suggests the housing recovery—stalled in early spring—may be catching its second wind.

Housing starts during the second quarter came in at a rate 8.4% lower than for the first three months of the year. Existing home sales in June were down 4.3% from the March pace. And the April-June monthly average for new home sales was more than 11% below the strong numbers (peaking at a 667,000-unit annualized rate) for the first quarter of the year.

Interest rates rose about 30 basis points between January and March, and the prospect of a first-time home buyer tax credit evaporated. Both developments dampened housing demand and housing production during the spring.

With the Fed's move to lower interest rates in July, and talk of a less-generous ($2500) first-time buyer credit becoming more serious, the near-term prospects for the housing market have improved. □

Modest Remodeling Gains Reflect Consumer Caution

Following three consecutive weak years, consumer spending on home improvement and repair appears to be staging a modest recovery.

Through the first five months of 1992, the number of remodeling projects for which building permits were issued rose 6.8% above the level seen in the first five months of 1991. The estimated dollar value of permitted projects exceeded last year's value by 6.4%, ahead of the gain needed to capture the effects of inflation for the last year.

Favorable conditions exist for this upward trend. The economy is recovering slowly, and we expect job and income gains to be sustained in the months ahead. Interest rates are at historically low levels—levels so low that, under normal cir-

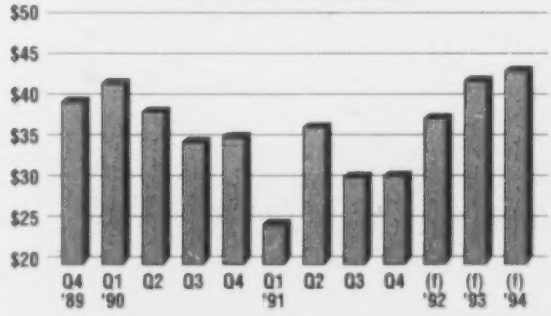
Continued on page 184.

Regional Market Conditions
(Year-To-Date Trends)

	S-F Home Permit $	Average S-F Permit Value	Remodeling Permit $	Employment Change
Portland, Maine	+35.9%	$90,318	+37.3%	-0.9%
Harrisburg	+45.2%	$89,274	+ 8.5%	-0.7%
Orlando	- 1.9%	$90,078	+ 5.8%	-0.2%
Knoxville	+56.3%	$72,400	+27.5%	+2.4%
San Antonio	+70.1%	$87,004	-24.7%	+1.6%
Milwaukee	+41.1%	$119,116	+12.3%	-0.3%
Omaha	+26.4%	$74,679	- 4.9%	-0.8%
Salt Lake City	+37.9%	$96,077	+49.5%	+2.2%
San Diego	-49.9%	$167,836	- 2.9%	-2.0%

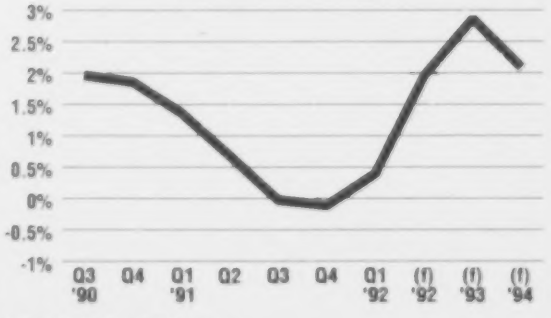
Sources: U.S. Departments of Commerce and Labor

Consumer Spending On Residential Additions & Alterations



Data reflect seasonally adjusted annual rates, in billions of $.
Source: U.S. Department of Commerce. Forecast: Cahners Economics.

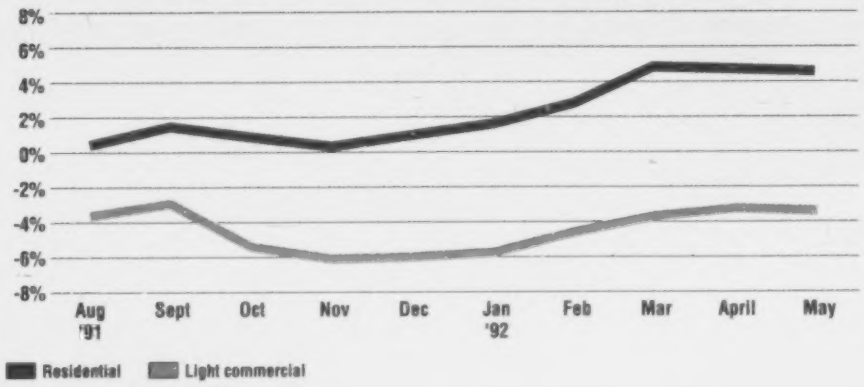
Real Disposable Personal Income
(Over-The-Year % Change)



Source: U.S. Department of Commerce.
Forecast: Cahners Economics.

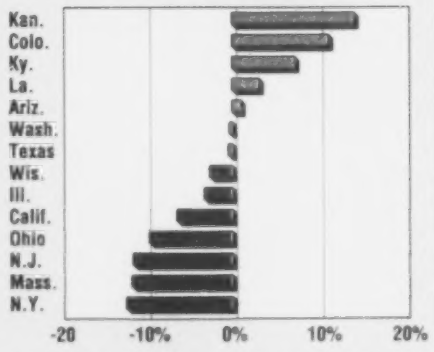
INDICATORS

Remodeling Permit Trends — Residential & Light Commercial



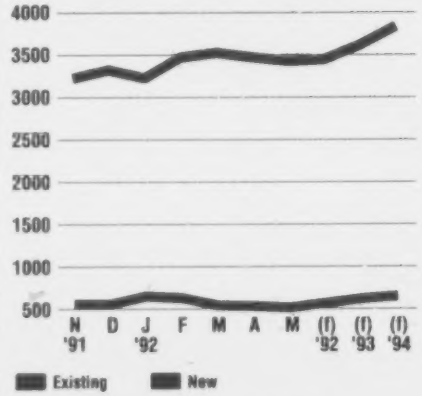
Data reflect % change in 12-month moving totals.
Source: U.S. Department of Commerce.

Construction Employment Trends



Data reflect % change in employment, March 1992 vs. March 1991.
Source: U.S. Department of Labor.

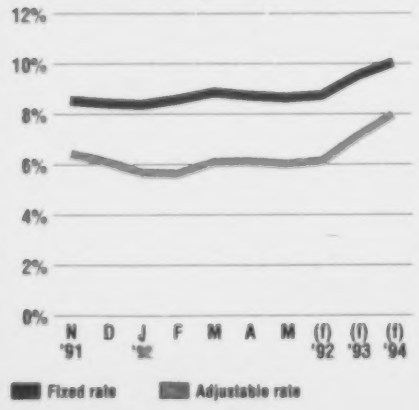
Single-Family Home Sales



Data reflect seasonally adjusted annual rate, in thousands.
Source: National Association of Realtors and U.S. Department of Commerce.
Forecast: Cahners Economics.

Mortgage Interest Rates

(Monthly Average)



Source: Federal Home Loan Mortgage Corp.
Forecast: Cahners Economics.

Key Trends At A Glance

	May '92	Sept '91
Total housing starts*	1,230,000	1,020,000
New home sales*	501,000	499,000
Remodeling permit trend	+4.6%	+1.4%
Consumer Confidence Index**	71.9	72.9
Median new home price	$106,000	$120,000
Fixed-rate mortgage	8.81%	9.01%
Construction wage trend	0.7%	1.3%

* Seasonally adjusted annual rate.
** 1985 = 100.

Remodeling Gains

Continued from page 183.

cumstances, we would expect to see a veritable boom in spending for remodeling projects.

Home equity loans, the most significant single source of funds for large home improvement projects, are bargains today compared to just a few years ago. Unfortunately, the weak housing markets in much of the country have caused home values to fall, leaving homeowners with little or no equity in their property against which to borrow.

The decline in property values and the excess of other forms of consumer debt have placed limits on how far and how quickly remodeling spending can bounce back.

Residential upkeep and improvement spending declined 8.7% to $97.5 billion in 1991. This represents the smallest spending total for the remodeling industry since 1987, and the sharpest year-to-year decline in spending over the three decades the Commerce Department has kept records.

Spending for additions and alterations declined by 16.9%. Maintenance and repair spending fell 2.9% on the heels of an exceptionally large gain of 20.2% during 1990.

The January-May 6.4% national gain in remodeling permit values is an average, which hides the significant differences that exist between regions. The parts of the country seeing the best gains in remodeling activity so far this year are the same areas that have enjoyed better-than-national-average improvement in employment levels, new home construction and BSHC retail sales. □